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C O N F I D E N T I A L BOGOTA 008907

SIPDIS

E.O. 12958: DECL: 09/01/2014

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SUBJECT: OPEN SKIES AND THE BILATERAL AGREEMENT

Classified By: CDA Milton K. Drucker for reasons 1.4 (c) and (d).

1. (U) Summary. On 25 August 2004 DCM Milton Drucker and Econoff met with Aeronautica Civil (CAA) Director Juan Carlos Velez to discuss Open Skies. Velez requested another one year extension of the 2000 agreement because he said Colombia was not ready for Open Skies, specifically Open Skies for passenger travel. End Summary.

2. (C) The 2000 bilateral civil air agreement, which was set to expire on 31 December 2003, was extended an additional year based on CAA's willingness to conduct feasibility studies on Open Skies in 2004. However, at the meeting Velez admitted that no feasibility studies were completed nor were any planned in the near future. The primary reason is Avianca's current status under Chapter 11. If Avianca were to exit Chapter 11 by the end of the year, CAA is confident it would not be able to compete with U.S. carriers under an Open Skies Agreement. Velez mentioned that Avianca's restructuring plan, if accepted, would take months to enact. Velez requested the 2000 agreement, specifically paragraphs one and three, be extended until 31 December 2005. Velez said Colombia is interested in liberalizing the air cargo market and, if possible, in negotiating an Open Skies Agreement for air cargo only. He said Tampa Airlines is doing well and would like fifth freedom rights from the U.S. to Asia, (TAMPA is currently under investigation for corruption and narcotics trafficking). On the margins, Velez informed DCM that Venezuelan carriers are selling airplane tickets to the U.S. for USD 150, while providing fuel subsidies to Venezuelan carriers and charging U.S. carriers international fuel prices, which is taking some market share away from Colombia.

3. (U) DCM told Velez Open Skies should not be viewed in a negative light. DCM noted the success Chilean carriers have encountered with Open Skies and that Open Skies will promote more business in Colombia and offer the possibility that Colombia could become a major business hub between the U.S. and South America. Finally, DCM noted that regardless of what happens to Avianca, a foreign company will own it. Colombia's interest is in promoting the lowest cost of air transport for its businesses and citizens.
DRUCKER